Edelweiss Financial Services NCD offers 9.95 per cent coupon

Henil Shah / 24-Dec-2020, 02:22 PM / Categories: DSIJ Mindshare, Mutual Fund

Edelweiss Financial Services Ltd is coming up with secured redeemable non-convertible debentures (NCD) with a face value of Rs 1,000 for each NCD. The base issue size is Rs 100 crore with a greenshoe option of retaining oversubscription up to Rs 100 crore, which takes the issue size up to Rs 200 crore. The company is offering coupon rates that range from 9.35 per cent to 9.95 per cent, having tenures of 36 months, 60 months, and 120 months. Further, investors have a choice whether to receive interest monthly, annually or on a cumulative basis. The issue is open for subscription up to January 15, 2021.

Key takeaways:

1. Each NCD of Rs 1,000 face value with a coupon ranging from 9.35 per cent to 9.95 per cent.
2. Interest coverage ratio is 3 times, which is fine. However, the trend of the same is declining.
3. Capital adequacy ratio is healthy at 20.62 per cent, above RBI norms of 15 per cent.
4. Credit rating is CARE A+ and BWR AA-. Though not poor yet carries some amount of credit risk.
5. Conservative investors can certainly avoid. However, aggressive investors can invest in 36-month tenure. Investing for higher tenure should be avoided as this issue poses a very high risk.

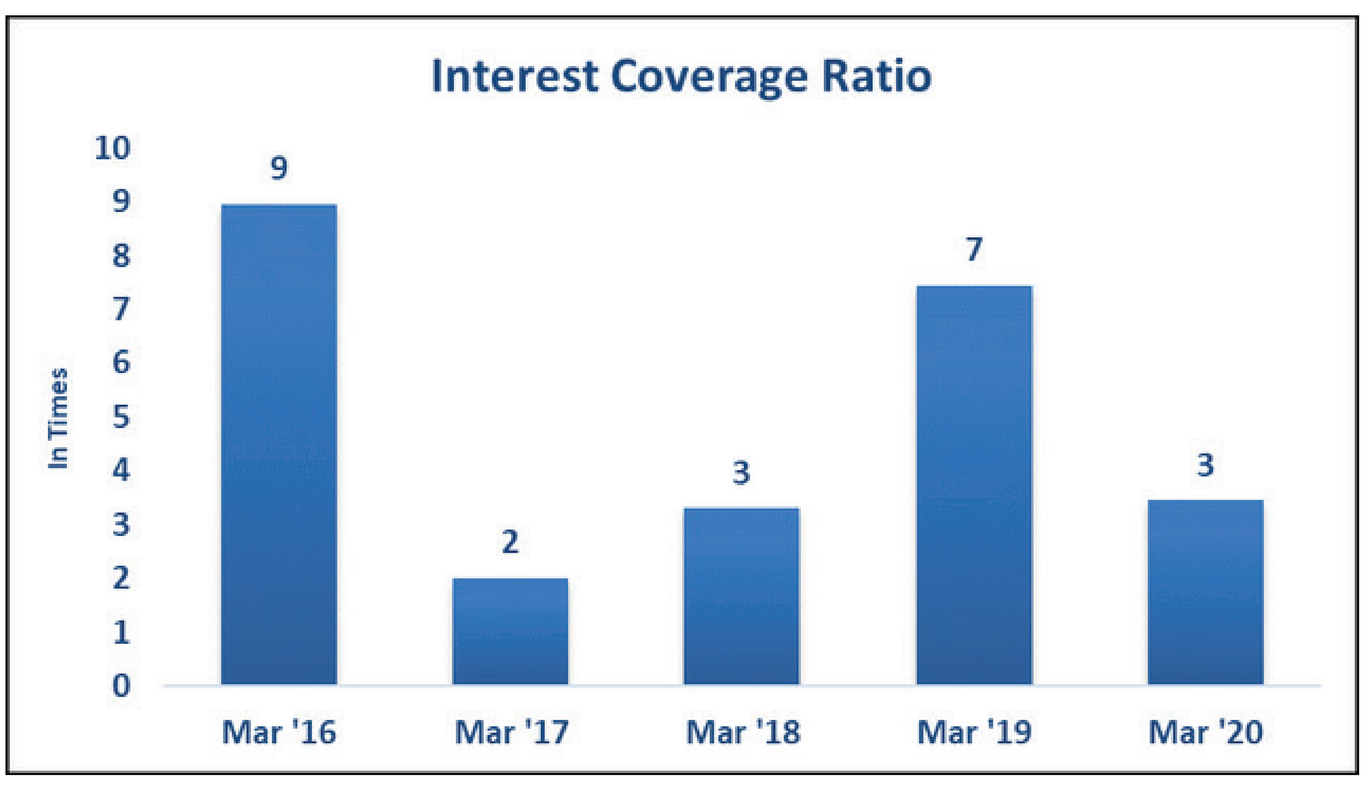
Issue structure

Series	I*	II	III	IV	V	VI	VII
Frequency of Interest Payment	Annual	Cumulative	Monthly	Annual	Cumulative	Monthly	Annual
Minimum Application	Rs 10,000/- (10 NCDs) across all Series						
In Multiples of thereafter (Rs)	Rs 1,000 (1 NCD)						
Face Value/ Issue Price of NCDs (Rs/ NCD)	Rs 1,000						
Tenor	36 months	36 months	60 months	60 months	60 months	120 months	120 months
Coupon (% per annum) for NCD Holders in Category I, II, III & Category IV	9.35%	NA	9.39%	9.80%	NA	9.53%	9.95%
Effective Yield (per annum) for NCD Holders in Category I, II, III and Category IV	9.35%	9.35%	9.80%	9.79%	9.80%	9.95%	9.94%
Mode of Interest Payment	Through various mode available						
Amount (Rs/ NCD) on Maturity for NCD Holders in Category I, II, III & IV	Rs 1,000	Rs 1,307.55	Rs 1,000	Rs 1,000	Rs 1,596.35	Rs 1,000	Rs 1,000
Maturity / Redemption Date (Years from the Deemed Date of Allotment)	36 months	36 months	60 months	60 months	60 months	120 months	120 months
Put and Call Option	NA						
Nature of Indebtedness	Secured Redeemable Non-Convertible Debentures						

* Company shall allocate and allot Series I NCDs wherein the Applicants have not indicated the choice of the relevant NCD Series

The company is going to use these 75 per cent of the fund for the purpose of repayment or prepayment of interest and principal of the existing borrowings of the company and a maximum of 25 per cent for general corporate purposes.

Interest coverage ratio



Though the interest coverage ratio is comfortable enough, the trend is not much intimidating. Having said, the issue size (including the greenshoe option) is 0.06 per cent of the company's overall debt, and hence, post this issue, there won't be any noticeable changes to its interest coverage ratio. However, it does save around Rs 4 crore for the company as presently, the company on average, pays interest at a rate close to 11 per cent.

Capital adequacy ratio

The total capital adequacy ratio (CAR) of the company stands at 20.62 per cent as of September 30, 2020. And this stands higher than Reserve Bank of India's norms, which requires maintaining the ratio of a minimum of 15 per cent. Therefore, on the capital front, the company seems to be in a good place.

Credit rating

The credit rating for this issue is rated CARE A+ by CARE Ratings Ltd whereas, **Brickwork Ratings India Private Limited rated BWR AA-.** Debt securities with a CARE A+ rating are considered to have an adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk. Even the ratings from Brickwork mean the same. Brickwork further gave a stable rating outlook that means expected stability (or retention) of the credit ratings in the medium-term on account of the stable credit risk profile of the entity in the medium-term.

Conclusion

The coupon indeed seems to be quite attractive and also the post-tax returns do generate a positive real rate of returns as well as better returns than that of bank fixed deposits. However, some amount of credit risk is persistent. Therefore, conservative investors should clearly avoid investing in this issue. Having said, aggressive investors can invest in it but it's recommended to opt for the 36-month tenure.